

City of Fremont

Fremont, California

*Auditors' Communication with
Those Charged with Governance*

For the year ended June 30, 2009

C&L
Caporicci & Larson
Certified Public Accountants

Mgt.
12/28/09



December 3, 2009

To the Honorable Mayor, Members of City Council and Management
of the City of Fremont
Fremont, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fremont (City) for the year ended June 30, 2009, and have issued our report therein dated December 3, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the City Council's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the City Council or management of their responsibility for the financial statement.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

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Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the audited financial statements is as follows:

- The Firm's responsibility for other information in documents containing the City's financial statements and report does not extend beyond the financial information identified in our report.
- The Firm does not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The City adopted three new accounting policies during 2009.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* – The Statement establishes accounting and financial reporting standards for pollution/contamination remediation obligations and remediation activities to address the detrimental effects of existing pollution.
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards* – These Statements incorporate certain accounting and financial reporting guidance for state and local governments into GASB's authoritative literature.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Investment Valuations
- Allowance for Doubtful Accounts
- Accumulated Depreciation
- Claims Payable (litigation)
- Pollution Remediation Liabilities
- Net Other Postemployment Benefits (OPEB) Obligation
- Accrual for Workers' Compensation and General Liabilities
- Pension Plan Obligations

The disclosures in the financial statements are transparent, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

- Summary of Significant Accounting Policies
- Cash and Investments
- Capital Assets
- Long Term Debt
- Pollution Remediation Liabilities
- Pension Plan
- Other Postemployment Benefits (OPEB) Plan
- Commitments and Contingencies
- Subsequent Events

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter. A signed copy is attached for your information.

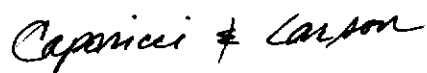
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

* * * * *

This information is intended solely for the use of the City and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Caporicci & Larson".

Caporicci & Larson, CPAs
Oakland, California



Finance Department

3300 Capitol Avenue, P.O. Box 5006, Fremont, CA 94537-5006
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December 3, 2009

Caporicci & Larson, CPAs
180 Grand Avenue Suite 1365
Oakland, CA 94612

Dear Sirs:

We are providing this letter in connection with your audit of the financial statements of the City of Fremont (City) as of June 30, 2009 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 3, 2009, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with generally accepted accounting principles in the United States, and include all funds of the primary government, all component units, and equity interests in joint ventures required by generally accepted accounting principles of the United States to be included in the financial reporting entity.
2. We have made available to you all -
 - a. Financial records and related data.
 - b. Minutes of the meetings of City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal awards.
5. We believe that the effect of the uncorrected financial statement misstatements, as indicated in the attached schedule, is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.



7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management,
 - b. Employees who have significant roles in internal controls, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. The City has no plans or intentions that may materially affect the carrying value classification of assets, liabilities, net assets, or fund balance.
10. The City has not received and/or expended any American Recovery and Reinvestment Act of 2009 funds.
11. Any bond monies have been used for their restricted and intended purpose.
12. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the City is contingently liable.
 - c. All accounting estimates, (including fair value measurements), that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
 - d. Pollution cleanup responsibilities of the City.
13. We are responsible for compliance with the laws, regulations, and provisions of contracts, grants and agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts, grants and agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
14. There are no -
 - a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting and amending budgets), provisions of contracts, grants and agreements, tax or debt limits whose effect should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.

- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclose by FASB Statement No 5, *Accounting for Contingencies*.
 - d. Reservations or designations of fund balance that were not properly authorized and approved.
15. As part of your audit, you prepared some draft financial statements and related notes and schedule of expenditures of federal awards. We have designated a competent management-level individual to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal awards
 16. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
 17. The City has complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance.
 18. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
 19. The financial statements properly classify all funds and activities.
 20. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
 21. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 22. Provisions for uncollectible receivables have been properly identified and recorded.
 23. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 24. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
 25. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 26. Special and extraordinary items are appropriately classified and reported.
 27. Deposits and investment securities are properly classified as to risk.

28. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
29. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
30. The City meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
31. The City has reviewed and believes that the Other Post Employment Benefit (OPEB) obligations and costs have been properly estimated and the assumptions are reasonable. In addition, the City has verified the qualifications of the actuary retained by the City to estimate the OPEB liability.
32. With respect to federal award programs
 - a. We are responsible for complying and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 - b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.
 - c. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.
 - d. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions reported in the schedule of findings and questioned costs.
 - e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to each major federal program.
 - f. We have received no requests from a federal agency to audit one or more specific programs as a major program.

- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews.
- h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- k. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal awards.
- l. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- m. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
- n. If applicable, we have taken appropriate action on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- o. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- p. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- q. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- r. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Harriet V. Commons
Print Name

Finance Director
Title

Harriet V Commons
Signature

12/03/2009
Date

City of Fremont
Summary of Audit Differences
Fiscal Year Ended June 30, 2009

Uncorrected Audit Differences:

NONE.

Corrected Audit Adjusting Journal Entries:

SEE ATTACHED

City of Fremont
Adjusting Journal Entries
FYE: 6/30/2009

AJE #	Fund #	Account	Debit	Credit
1	630	OPEB Liabilities Exepnditures	1,614,596	1,614,596
		To book OPEB liabilities for FY 08/09		
2	001	Cash		5,077,462
		Due from other fund	5,077,462	
	105	Due to other fund		866,500
		Cash	866,500	
	103	Due to other fund		1,456,831
		Cash	1,456,831	
	165	Due to other fund		84,992
		Cash	84,992	
	106	Due to other fund		26,369
		Cash	26,369	
	141	Due to other fund		88,333
		Cash	88,333	
	173	Due to other fund		55,558
		Cash	55,558	
	104	Due to other fund		103,285
		Cash	103,285	
	133	Due to other fund		18,050
		Cash	18,050	
	172	Due to other fund		83,043
		Cash	83,043	
	153	Due to other fund		40,000
		Cash	40,000	
	181	Due to other fund		528
		Cash	528	
	159	Due to other fund		4,423
		Cash	4,423	
	192	Due to other fund		191,254
		Cash	191,254	
	107	Due to other fund		26,091
		Cash	26,091	
	522	Due to other fund		280,347
		Cash	280,347	
	523	Due to other fund		27,064
		Cash	27,064	
	506	Due to other fund		121,124
		Cash	121,124	
	507	Due to other fund		296,372
		Cash	296,372	
	512	Due to other fund		1,012,268
		Cash	1,012,268	
	525	Due to other fund		295,030
		Cash	295,030	
		To book due to/from to offset negative cash balances in some funds		
3	001	Revenues	1,326,338	
		Expenditures		1,326,338
		To reclass the PERS prepayment		
4	325	Agency Fund liabilities		260,000
		Revenues	260,000	
	339	Agency Fund liabilities		170,000
		Revenues	170,000	
		To record refunds payable adjustment for LID funds		

City of Fremont
Adjusting Journal Entries
FYE: 6/30/2009

AJE #	Fund #	Account	Debit	Credit
5	001	Transfers in	116,109	
		Cash		116,109
	620	Cash	118,050	
		Transfers out		118,050
	191	Cash	684	
		Transfers out		684
	911	Cash	25,765	
		Transfers out		25,765
	950	Cash	50,606	
		Transfers in		50,606
	189	Cash		78,996
		Transfers out	78,996	
		To adjust overhead expenses for FY 08/09		
6	177	Revenues		40,191
		Due from other gov	40,191	
		To record MMRS grant revenues		
7	191	Expenditures		29,254
		Cash	29,254	
	911	Expenditures	29,254	
		Cash		29,254
		To move the expenditures from fund 191 to fund 911		
8	950	A/P		393,349
		Expenditures	393,349	
		To adjust the RDA passthrough payments		
9	007	Cash		3,486,541
		Transfers out	3,486,541	
	001	Cash	3,486,541	
		Transfers in		3,486,541
		To transfer \$3,486,541 from Fund 007 to Fund 001		
10	952	Cash		500,000
		Transfers out	500,000	
	950	Cash	500,000	
		Transfers in		500,000
		To book transfers to cover additional passthrough adjustments		
11	985	Expenses	69,242	
		Revenues		69,242
	987	Expenses	378,641	
		Revenues		378,641
		To reclass 2008 fixed and variable COPs underwriter's discount to issuance costs		
12	950	Liability	35,207	
		Cash		35,207
	951	Cash	35,207	
		Liability		35,207
		To correct payroll liability account between RDA funds		